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EDITORIAL NOTE

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CHANGES IN STOCKS OF COMMODITIES IN 1940.

1. The White Paper[1] gives us only the general figure of disinvestment in 1940 without subdividing it into its various components. On the basis of the data contained in its first part it is still possible to divide roughly the total disinvestment into disinvestment at home and abroad, but no inferences whatever may be drawn about the various items contributing to home disinvestment. Particularly significant among these items is the fall in the volume of stocks of consumption goods which is alluded to in the White Paper as 'a reduction in the volume of stocks of finished and unfinished goods, which are no longer being produced on a peace-time scale (for example, motor cars).' It is this item which is the chief object of the inquiry carried out in the Institute of Statistics.[2]

The inquiry was based on a sample of 391 companies with balance sheets for December 31st.[3] The value of their stocks at the end of 1939 was about £169 million. They represent all lines of business conducted at home except retail trade, which has been excluded because the information about it may be drawn from the data published by the Bank of England .The companies were subdivided into two groups : 'armament' (iron and steel, engineering and shipbuilding, building materials and building) and 'non-armament' (all the rest). The first group embraced 149 companies with the value of stocks at the end of 1939 of about £62 million, for the second group the respective figures were 242 companies and £107 million. Needless to say, the 'armament' group covers production of durable consumption goods and the 'non-armament' group—some Government orders (for instance for uniforms).

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[1] *An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in* 1938 *and* 1940.

[2] Under the supervision of Mr. P. W. S. Andrews.

[3] Based on Moody's Economist Service.

The results of our inquiry are as follows:

CHANGE IN VALUE OF STOCKS IN 1940

'Non-Armament'	'Armament'
+ 3%	+ 39%

A scrutiny of changes in stocks of particular firms has shown that strong reductions in the value of stocks (by more than 50 per cent.) were very rare indeed. This suggests that taking over of stocks by the Government in the sense of buying them off did not take place —as far as our sample goes. This does not of course mean that physical control or finance of stocks was not taken over, which might well have been the case.

2. The Bank of England retail trade sample shows a rise in the value of stocks in 1940 by 8 per cent. Thus the rise in 'non-armament' stocks inclusive of retail stocks may be assumed to be of the order of about 5 per cent. (if both samples in question are representative).

We shall now try to find out something about the change in the volume of stocks, i.e. about their change after elimination of the appreciation of stocks in 1940. Stocks are valued in the balance sheets at current price or purchase cost whichever is lower. Both 1939 and 1940 were years of rising prices and therefore it is the latter method which is relevant here. The first approximation towards the extent of appreciation is to compare the commodity prices in the periods of stocks' turnover preceding the end of 1939 and 1940 respectively, say, the average of the last 4 months of these years. The rise in the Board of Trade index of prices of industrial materials and manufactures, if we compare the last 4 months of 1939 and 1940, is about 26 per cent. and is approximately the same in the 'armament' and 'non-armament' group (the rise in food prices is lower but food constitutes a rather small proportion of stocks). The rise in retail prices is of the same order. Thus the appreciation to be eliminated is of the order of 26 per cent. for both kinds of stocks. In this way, however, the appreciation is overstated for the following reason. A part of stocks during war time are of the character of 'iron reserves' and are therefore not turned over. Here belong in particular those controlled by the Government. For these appreciation (when valuation is based on purchase cost) will not take place. It seems therefore that an appreciation of say 20 per cent. comes nearer to the truth than 26 per cent. On this assumption the change in the volume of stocks may be easily calculated:

Change in the Volume of Stocks in 1940

	'Non-armament' incl. of retail	'Armament'
	$\frac{1{\cdot}05}{1{\cdot}20} = 0{\cdot}88$	$\frac{1{\cdot}39}{1{\cdot}20} = 1{\cdot}16$
or	—12%	+16%

The percentage decline in 'non-armament' stocks seems at a first glance not very high. It must be noticed, however, that in the first half of 1940 the stocks most probably did not fall at all and thus their fall in the second half of that year may have been at a rate of 25 per cent. per annum which, if it were to continue, would be definitely dangerous.

It is hardly necessary to add that the above results only indicate the order of magnitude of changes in stocks because the samples in question may be not sufficiently representative and the percentage of appreciation is a rough guess.

3. It may be asked what is the significance of the changes in stocks in private hands in view of possible offsetting changes in stocks in the possession of the Government. The decline in the stock of consumption goods in private hands shows at least this: there was a discrepancy between actual consumption and the supply of consumption goods as determined by imports, home production and the Government's policy of increasing or reducing their stocks. As long as consumption is not diminished or supply, as ruled by the above three factors, is not increased the reduction of private stocks will continue at the same rate.

But, of course, the problem how the stocks of the economy as a whole have changed is just as, or perhaps even more, important. We shall try to answer this question for only one item but one of particular importance, namely for food. For this purpose we shall compare agricultural production plus food imports in 1938 and 1940 on the one hand and food consumption in those years on the other.

The relation of sales of home agricultural produce to food imports in 1938 was about 44:56.[1] We assume that there was no important change in the volume of sales of home produce from 1938 to 1940 and, taking into account the fact that agricultural prices increased by 39 per cent.[1] we find that the home component has risen by this percentage. Further, the value of food imports increased from 1938 to 1940 by about 5 per cent. It follows that the total rise in supply of food at wholesale prices may be estimated at 20 per cent. The calculation was based on the value of food supplies exclusive of excise and duty; but a tentative estimate shows that their inclusion leaves the percentage increase practically unchanged.

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[1] M. G. Kendall in *Journal of Royal Statistical Society* 1941 part II, estimates the income of farmers taken as a whole (National Farm) in 1937–39 at £285 million per annum. Food imports exclusive of feeding stuffs, alcohol and tobacco, were in 1938 about £360 million.

Now retail sales of food (inclusive of consumption of armed forces) may be estimated[2] to have increased from 1939 to 1940 by about 13 per cent. To find out how much the wholesale value of these sales increased we must take into account the relative changes of wholesale and retail prices. The Ministry of Labour index of retail food prices shows an increase of 17 per cent. while the Board of Trade index of wholesale food prices rose by 36 per cent.[3] Thus the wholesale value of retail sales has changed as follows :

$$\frac{1{\cdot}13}{1{\cdot}17} \times 1{\cdot}36 \doteq 1{\cdot}31 \text{ or by } 31\,\%.$$

Now since supply of food increased only 20 per cent. and consumption by 31 per cent. (both in wholesale prices), $\frac{31-20}{131} = 8$ per cent. of consumption has been covered out of stocks.[4]

The basis of calculation is also here rather precarious and the results must be therefore treated with caution. In particular it is necessary to remember that even relatively small errors in the indices involved will be rather strongly reflected in the final result which therefore can indicate only the order of magnitude of the percentage of food consumption covered out of stocks.

M. KALECKI.

THE PAPER SHORTAGE

A. PAPER AND BOOKS

The Paper Industry of the United Kingdom has been very largely dependent on imports for its materials. In Table I it is seen that waste paper and rags account for only 20 per cent. by weight of the materials used (other than clay, etc.). The ordinary sources of imports were seriously checked on the outbreak of war, since almost the major supply of woodpulp came from Baltic countries, and of esparto from North Africa, and after the invasion of Norway the remaining principal source of pulp was closed. Alternative sources have been found, mainly in Newfoundland and Canada;[1] in the last quarter of 1940, as is seen in Table II, the value of materials imported was one-half of the average in 1938, but the quantity was a much smaller proportion since the price had greatly increased. Since there are no recent statistics of the weight of imported materials nor of the increased supply of waste paper, it is not publicly known how great is the supply at present.

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[1] *Journal of the Ministry of Agriculture.*

[2] On the basis of White Paper and Bank of England retail trade statistics (see BULLETIN, Vol. 3, No. 10, p. 209).

[3] This index includes also prices of tobacco but their elimination changes it very little.

[4] This is on the assumption that consumption and supply in 1938 was in balance which was probably approximately the case.

While, as Table I shows, newspapers depended in 1935 on imports for one-third of their paper, other printers used almost entirely home produced paper. For all purposes the Book and kindred trades used 310,000 tons in 1935 (Table III). The value of books themselves forms only a small proportion of the output of the printing trades, the greater part is due to general printing of trade material or of a miscellaneous character. Mr. Unwin in a letter to the *Times* (dated October 1st, 1941) states that only 5,000 tons of paper *per quarter* are to be allowed for book production, and that this is less than 1 per cent.[2] of the total consumption of paper and boards. No doubt it is a very small proportion, but the figures imply that the annual consumption at the present rate for all purposes is roughly 1·6 million tons, while from Table I it appears that in 1935 it was little over 3 million tons, and the cuts in delivery of paper to newspapers and printing firms amounts to 70 per cent. It was stated by the Controller in September 1940 that the supply of waste paper was approaching 1 million tons annually and that this constituted 60 per cent. of the raw materials used in paper-making. Waste paper has thus made good a great part of the loss of imports of materials.[3] If paper is now available at the rate of 1·6 million tons, it appears that the Government must be making considerable calls on the supply.

According to *The Bookseller* the number of published editions in the United Kingdom at not less than 6d. averaged 16,750 in the years 1935–1938, and fell to 14,900 in 1939, to 11,000 in 1940 and to 3,600 in the first half of 1941. If the editions were of the same weight now as pre-war, the paper used now would be less than half that in pre-war years.

Certain economies in the use of paper have already been made by the trade including the issue of smaller editions. But there are still further economies that could be made, for example the reduction in the width of margins.

The effective 'ration' of paper for the Publishing Trade is 50 per cent. of the amount delivered in the 'reference period' (March 1st to May 31st, 1939). This reduction does not, however, allow for factors which may have increased slightly the publishers' demand for paper, as, for example : stock damaged by enemy action and possible increased exports. Furthermore the publishers argue that trade during the reference period was below normal on acount of fears of war.

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[1] During May 1940 Canada exported 323,500 tons of newsprint alone, while in 1938 she exported only 47,047 tons of paper and paper-making materials.

[2] Mr. Unwin informs me that the figure should be about 1¼ per cent.

[3] In 1938 the weight of imported materials was about 2 million tons and of imported paper and board 1 million tons. The use of waste paper in 1935 was 0·4 million tons.

In order to check still further the reduction in the number of books, it is necessary to make no further calls on labour in the printing industry. At present the shortage of skilled labour is delaying greatly the issue of books, and as much consideration should be given to this factor as to the supply of paper.

TABLE I

The Paper Trade (Census of Production 1935)

Materials used :	*tons*		*Production tons 000's*	*Production value £Mn*	*Imports 000 tons*	*Exports 000 tons*	*Consumption*
Mechanical Wood Pulp	647						
Chemical Wood Pulp	861	Printing paper					
Esparto	279	Newsprint	857	8	366	70	1153
Waste paper	413	Other ...	394	8	12	49	357
Rags	60	Writing paper	145	5	7	12	140
Other fibrous materials	34	Other paper	472	11	273	24	721
China Clay, etc. ...	222	Cardboard, etc.	381	4	392	11	762
Total ...	2516	Total*	2249	36	1050	166	3133

* Excluding fibre-board, packing-cases, paper bags and other groups valued at £4 Mn.

Table II

Paper Material and Paper

	Imports and Exports Value, £Mn.			
	Material		*Paper, Cardboard, etc.*	
	Imports	*Exports*	*Imports*	*Exports*
1938 quarterly average	4·0	0·3	4·7	1·7
1939 quarterly average	3·9	0·2	3·9	1·7
1940 first quarter	5·0	0·1	5·4	2·5
second „	3·1	0·1	4·3	2·9
third „	2·9	0·1	3·8	2·8
fourth „	2·0	0·1	2·8	1·7

Table III

Including Printing Trade,* Binding, Stereotyping, Engraving, Etc. (Census of Production 1935)

Materials used :	*Tons* 000's	*Cost* £Mn.	*Production*	*Value* £Mn.
Newsprint	10	0·1	Printed books	4·8
Other printing paper ...	217	6·3	Bookbinding for customers...	2·0
	83†	2·4	Magazines, etc.	5·3
			Other printing, etc.	46·2
Total	310	8·8	Total	58·3

* Excluding nearly all newspapers but including periodicals to the value of £4Mn.

† The weight is given only for the former line. It is assumed that the average cost was the same in both entries.

A. L. Bowley.

B. The Control of Paper

On the outbreak of war the Minister of Supply set up a Paper Control, to control prices and supplies of paper during the war. The most important orders issued to control the Paper Trade were the two which 'rationed' paper. The first,[1] on February 1940, provided that no producer, except under licence, might deliver for the Licence period (March 3rd to June 1st, 1940) more than 60 per cent. of the amount delivered in the reference period (which was fixed as March 1st to May 31st, 1939). It was, however, specifically stated that paper for special purposes (among which was listed books) could, under licence, be delivered in excess of the prescribed percentage. The extension of the war to Scandianvia, which had hitherto provided roughly 75 per cent. of our raw material supplies, necessitated a still further reduction in paper consumption. The second order for this purpose appeared on April 12th, 1940,[2] reducing the 60 per cent. of the previous order to 30 per cent.—the cut was to be applied retrospectively—and amounts scheduled for delivery under special licence were to be cut retrospectively by 50 per cent. Neither of these orders applied reductions to paper for the use of Government departments or for export. The most important reductions in paper consumption were effected by means of these two orders, but their effect was supplemented from time to time by orders which prohibited the manufacture of certain kinds of paper articles and restricted the use of paper for advertising and wrapping purposes. On May 25th, 1940, for example, an order[3] limited the size of posters and restricted the use of advertisement slips. A more comprehensive order[4] issued on August 13th, 1940, prohibited the publication of new periodicals or newspapers, the wrapping of collapsible metal tubes, the display of advertising showcards, the production of paper serviettes, paper handkerchieves, doylies and festoons, the circulation of advertising matter on the part of money-lenders and football pools, and the exhibition of posters relating to the sale of a newspaper or periodical. Certain classes of advertising matter, such as trade catalogues distributed to a wholesaler or retailer, details of insurance policies and notices of auction sales, were exempt from the provisions of the order, as also was wrapping paper considered necessary for the purposes of hygiene or protection. The list of prohibitions was still further augmented on April 21st, 1941,[5] when such paper goods as picture postcards, programmes, gramophone record cases, menus, dummy cartoons, visiting cards and compliment slips were either prohibited altogether or limited as to size.

A system of licensing for dealers and merchants was initiated in the early stages of the war; dealers in waste paper being the first to require a licence.[1] All dealings in paper and paper-making material were made subject to licence on October 25th, 1939,[2] when the Ministry became in effect the sole dealer in paper.

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[1] Control Order No. 8.
[2] Control Order No. 11.
[3] Control Order No. 16.
[4] Control Order No. 20.
[5] Control Order No. 32.

A vigorous paper salvage campaign was started, and collection increased on such a scale that in September 1940[3] waste paper was being used in paper-making at the rate of 1 million tons a year, whereas in 1935 the use of waste amounted to 0·4 million tons. Even this figure does not represent an absolute maximum and increased efforts,[4] including better collection methods on the part of local authorities, are being made to augment the supply.

Various schedules of maximum prices have been issued under different orders and the following two samples will serve to show the course of maximum prices under control.

per ton	1939			1940		
	2 *Sept.*	25 *Oct.*	30 *March*	24 *May*	6 *July*	24 *Oct.*
Newsprint	£12 5 0	£17 0 0	£21 10 0	£22 6 0	£24 0 0	£28 10 0
Mechanical Printings*	£20 10 0	£28 12 6	£34 2 6	£35 9 6		£43 5 0

* (Excluding newsprint) machine-finished more than 15 per cent. and up to 30 per cent. mechanical fibre content.

N. H. LEYLAND.

QUANTITATIVE AND QUALITATIVE FULL EMPLOYMENT

The concept of full employment commonly used in economic theory refers only to gainfully occupied persons. Peace-time full employment means the absence of involuntary unemployment in the sense that there are no more workers willing to accept a given real wage,[5] or to put it in another way, given the level of real wages no employer can increase his staff without reducing the staff of another employer.[6]

The introduction of conscription of labour during the war, however, puts the problem in an altogether different perspective. We are now concerned not only with the shifting from one job to another of that proportion of the population which is willing to work for a given wage, in order to obtain maximum output of war material, but with the wider task of shifting about the *entire* able-bodied population so that no individual is engaged on a task, whether paid as in industry or unpaid as in housework, from which he or she can be spared for more essential work. Not only the volume but also the direction of the available labour force comes into the foreground.

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[1] Control Order (No. 2) 8 Sept. 1939. [2] Control Order No. 4.

[3] Statement by Mr. Ralph Reid, the Paper Controller.

[4] For example, Lord Beaverbrooks' appeal for another 100,000 tons of waste paper.

[5] Keynes, J. M., *General Theory of Employment, Interest and Money*, p. 12.

[6] Robinson, J., *Essays in the Theory of Employment*, p. 15.

Thus in a war economy the concept of full employment must be extended to cover the occupational and industrial changes of the hitherto gainfully occupied and those " unoccupied " who can be drafted into trade and industry, i.e. into gainful occupation. We may denote the traditional concept implying merely the absence of involuntary unemployment by 'quantitative full employment' and the wider concept as 'qualitative full employment' bearing in mind that in practice the two concepts shade into one another.[1]

We may say that *qualitative* full employment is the limit to which the constant process of shifting of the occupations of the population should tend, this limit being a 100 per cent. use of the male and female population in directions which are considered as more essential than others, account being taken of particular abilities and inabilities of sex and age.

In August 1941 there were 220,000 wholly unemployed insured persons, most of whom were unsuitable for industrial work. Full quantitative employment had been reached, though it is generally admitted that further increases in war output can be achieved from the existing gainfully occupied labour force in employment by shifting from ' non-essential ' to ' essential ' industries. During the next stage of the war it will be necessary to draw particularly on those trades whose progress in integration, mechanization and scientific management has encroached least on the heritage of the nineteenth century, and to bring in new workers from domestic households.

In 1941 the distributive trades, whose productivity is very low, and domestic households[2] accounted for about 11 million adults (aged 16-64),[3] or a quarter of the total population of Great Britain.

TABLE I

		Gainful workers in		*Volume of goods produced and distributed per worker in*	
Year	*Population*	*Production*	*Distribution*	*Production*	*Distribution*
1870	100	100	100	100	100
1880	130	132	157	133	112
1890	163	166	257	145	94
1900	197	196	378	175	91
1910	239	243	513	209	99
1920	274	268	657	278	113
1930	318	271	877	335	104

(Twentieth Century Fund: 'Does Distribution Cost Too Much?' 1939, p. 379.)

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[1] Germany in 1938 was, for instance, an intermediate case, and 'involuntary' overtime raises other questions of definition.

[2] The following table is based on U.S. Census data and the index of physical production prepared by the research department of the Federal Reserve Bank of New York.

[3] According to the Census of Population, 1931, 2·6 million persons were occupied in the distributive trades, 1·5 million in private domestic service, and there were 8·6 million unoccupied married and widowed women. It has been assumed above that the numbers occupied in the domestic households, consist of 1·5 million paid employees and 7·1 million unpaid married and widowed women.

TABLE II

Year	*Total Population* *Numbers* '000	*Index*	*Persons occupied in Private Domestic Service* *Numbers* '000	*Index*	*% to total Population*	*Index*
(*a*) Great Britain:						
1911	40,831	100	1,630	100	4·1	100
1921	42,769	105	1,366	81	3·2	78
1931	44,796	110	1,626	96	3·6	88
(*b*) Germany:						
1907	54,991	100	1,465	100	2·7	100
1925	62,410	113	1,394	95	2·2	81
1933	65,218	119	1,269	87	1·9	70

It took about two years during the last war to break down finally the customary barriers to the employment of women in industries which had hitherto been considered as suitable only for men. Similarly, peace-time conceptions of full numerical employment and industrial distribution (looking at labour from the demand side) can be traced in the Government policy during the first two years of the present war. The size of the labour market was defined by the size of the population hitherto occupied (employed and unemployed) which reflected after all only the existing peace-time capital equipment of the country, and the distribution of the peace-time national output. If the question of the unoccupied population was touched upon it was only in order to estimate how many women hitherto unoccupied have to replace the called-up men, and not how best to utilize the whole population in the war effort.

The following table is arrived at by applying to the 1939 Unemployment Insurance data the proportion between the figures of occupied as given by the Census of Population and the Health and Unemployment Insurance statistics of 1931.

TABLE III

ESTIMATED OCCUPIED AND UNOCCUPIED POPULATION (GREAT BRITAIN, JULY 1939)
000.s

Males *Ages* 16–64	*Males* *All ages*		*Females* *All ages*	*Females* *Ages* 16–64
	22,289	Total population	24,111	
15,207	17,711	Aged 14 years and over	19,651	16,617
380	1,701	Unoccupied aged 14 and over	12,745	10,367
14,827	16,010	Occupied aged 14 years and over	6,906	6,250
2,275	2,525	Commerce and Finance	1,188	1,051
766	838	Personal Service	2,052	1,861

It follows that in July 1939, 17 million persons, aged 16–64, i.e. 52 per cent. of the population (aged 16–64) were either unoccupied or occupied in commerce and finance (mostly in the distributive trades) and in personal service (including hotels, catering, laundry). No data are available since 1939, but it would not be unreasonable to estimate that the above proportion in the summer of 1941 is not less than 45 per cent. (assuming a decrease of about 3–4 millions in the number of persons unoccupied or occupied in commerce and personal service) or about 13 million persons.

Miss Iris Douglas[1] shows on the basis of the 1931 Census of Population that the ratio of persons occupied in the retail trade (i.e. retail owners, managers and employees, clerical staff excluded) to the total population in England and Wales is 40 per 1,000, varying from one county to another, the lowest ratio being 29 per 1,000 in Carmarthen, the highest being 50 per 1,000 in Sussex, and the ratio for London being 45 per 1,000.[2] Assuming that one-fourth of the total population forms the regular shopping[3] population, we find that one person in the retail trade, on the average, served six customers weekly. Each customer could therefore claim, on the average, about 18 hours weekly of the person occupied in the retail trade. These conditions became accentuated in the years 1931–1939. The following table indicates the growth of the distributive trades in 1931–1939 (Great Britain).

TABLE IV

	July 1931	*July* 1939	% *of increase*
	(000's)		
Distributive Trades (ages 16–64) Unemployment Insurance Data...	1,837	2,046	11%
Total population (all ages)	44,831	46,400	3%

On the basis of the 1931 proportions we may estimate that in 1939 five instead of six customers were served weekly by one person in the retail trade ; or that the average claim of one shopper on the time of the retailer increased from 8 hours weekly to 9½ hours weekly. This tends to show that there is room for some contraction in services and, as was shown in a recent BULLETIN,[4] particularly in the non-food retail trade. The necessary re-organization of the retail trade will hardly take place without Government intervention. The call up of men and the transfer of women from the retail trade without planned concentration and the consequential closing down of the 'weakest' retailers seems to be the method followed by the Government. The pairing of retailers suggested in the article quoted above would seem to have some advantages. Moreover, full-time employees (particularly in the food trade) could be partly replaced by part-time work of housewives, and queueing could be reduced by fixing shopping days and hours (including evenings) for streets or household groups in order to facilitate the shopping of women working full time in industry.

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[1] *Journal of the Royal Statistical Society* 1935, Part III.

[2] The ratio in the U.S.A. in 1933 was 40 per 1,000, i.e. the same as in England and Wales; in Canada 38 per 1,000. 27 per cent. of the numbers of full-time employees in the U.S.A. and 15 per cent. in Canada are part-time workers. (U.S. Dept. of Commerce: Census of American business, 1933, Retail Trade. 17th Census of Canada 1931, Retail merchandise trade.)

[3] That part of the population is meant which shops evenly every week throughout the year, mostly in connection with housekeeping. This proportion is short of all those persons who shop regularly every week but do not spend a long time in the shop (at stationers, tobacconists, etc.) or shop irregularly, but spend more time in the shop (textiles, clothing, etc.).

[4] *Rational Retailing in War Time*, by G. D. N. Worswick. BULLETIN, Vol. 3, No. 13.

Such 'dilution' in retail trade is closely connected with some reorganization of the domestic household. The average housewife performs the function of housekeeper, cook, charwoman and nurse, and her (household) equipment and training are for this small scale enterprise.

It may be that specialization of housewives in groups would free some for industrial employment, particularly if the 'equipment' could be adjusted to such a scheme. But quite apart from the psychological obstacles to such a reorganization, communal feeding and works canteens, school meals and day nurseries, and communal laundries might prove easier to execute and have a greater displacement effect.

It seems evident, however, that to draw upon the reservoir of labour in the distributive trades and the domestic sphere, some planned reorganization of both spheres is desirable in order to obtain the optimum effort with a minimum of hardship.

H. Frankel.

RATIONING AND SURPLUS GOODS

The purpose of this note is to set out the advantages which the method of rationing of expenditure has in countries with substantial surpluses of some consumable goods. Australia may be taken as an example, but the argument can be applied equally well to New Zealand, also to South Africa; it may also have some importance for the United States in a later stage of their transition to a war economy.

The underlying problem was touched upon when the late Australian Government indicated its desire to solve the problem of surplus goods (in part) by inducing Australians to consume more of the surplus food in substitution for imported food or highly processed food which uses up scarce factory labour.[1] The surplus goods are mainly meat, sugar, butter, fruits. To the scarce consumers' goods belong first all those which are imported (textiles, and a great variety of smaller items); and second, goods which are needed for the war effort (e.g. the product of wool manufacture, probably also cheese which is needed for export to the United Kingdom) or which need labour which could be diverted to war production.[2] The dual aim of restricting the consumption of the scarce goods and keeping up, or increasing, the consumption of surplus goods, can be solved by rationing the total expenditure on scarce goods, on the lines of Mr. Kalecki's scheme,[1] while leaving people free to spend on surplus goods as much as they like. The effect of this scheme would be to direct the additional income, resulting from the increasing war outlay, into channels where expenditure is innocuous and does not produce shortages.

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[1] *Monthly Summary of Bank of Australasia*, July 1941, p. 5.

[2] We take it for granted all the time that the farmers who produce the surplus goods cannot be diverted to war production, and that it would be unwise to leave the farms and their equipment to deterioration; otherwise the problem of surplus would not arise.

On what grounds should we expect an increase in consumption of surplus foods? Most of them belong to the kind of foods which wage-earners consume in increasing quantities as their income increases. There is no investigation of consumption at various income levels for Australia, but there are such investigations for several other countries (including the United States) and they show that, within the ordinary range of wage-earners' incomes, consumption of meat, milk and dairy products, and fruit, probably also of sugar, increases with increasing income.[2] It is true that with higher incomes there will probably be a limit to this increase, but even in Australia this limit is not likely to be reached by a large number of incomes. Any increase in the lower incomes resulting from the war expenditure will then lead to an increase in the consumption of surplus goods. But if expenditure on other goods is rationed then the rise in consumption will be greater than it otherwise would be. Not being able to spend a part of the increase in income on scarce goods, people will probably buy surplus goods in greater quantities in order to get some immediate satisfaction out of their income. The total increase in consumption of surplus food resulting from the rationing scheme would depend on the following factors : the increase in lower and middle sized incomes resulting from the war expenditure, the extent to which expenditure on scarce goods is restricted, the rise in surplus good consumption with a given rise in income levels, and finally the extent to which people will, as it were, forcibly substitute surplus goods for other goods which they are not able to buy in greater quantities.

If the problem of simultaneous scarcity and surplus is left to be solved by the price mechanism, there will be inflation in the sector of scarce goods, while the prices of surplus goods will rise little (in practice this state of affairs would probably lead to the granting of subsidies to farmers, to enable them to keep up their real income). The price discrepancy between surplus goods and scarce goods would lead to substitution of the former for the latter, and this would mitigate the inflation, and at the same time increase the consumption of surplus goods. But the 'substitution effect' of the price discrepancy would be limited, and a large part of any increase in money income would be spent on scarce goods, with the only effect that their prices would rise again.

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[1] For the details of this scheme, see Bulletin, Vol. 3, No. 1.

[2] Workers' Nutrition and Social Policy, International Labour Office, Studies and Reports Series B, No. 23. Geneva 1936, p. 65.

In the case of rationing, however, inflation in the scarce goods' sector will be prevented by fixing the expenditure ration for scarce goods so as to equal their supply. Any spendable surplus above this expenditure ration could only be used for surplus goods (and perhaps services) or for saving. Scarce goods above the expenditure ration having, as it were, an infinitely high price, the substitution will be carried out to a far greater extent than the price mechanism could achieve, and the effect on surplus goods consumption will therefore be greater.

It appears that in countries with consumable surplus goods the method of financing the war by taxation (or compulsory saving) imposed partly on middle and lower incomes, involves even more obvious disadvantages than elsewhere. If the taxation prevents a rise in lower incomes, it prevents at the same time a rise in consumption of surplus goods ; if it actually cuts down lower incomes in order to reduce consumption of scarce goods, then the consumption of surplus goods likewise falls, and the pressure on their markets increases. Orthodox war finance is unable to cope with this problem.[1]

What would happen if the rationing scheme were introduced and lower incomes were increased until all the surplus would be absorbed? There is little danger of this with respect, e.g., to Australian meat, but wherever it would happen a kind of secondary scarcity would arise. The answer to the problem is to apply the same technique again: ration expenditure on those surplus goods which become scarce, by fixing a separate expenditure ration for these goods. There would then be one expenditure ration for goods of primary scarcity, and another expenditure ration for goods of secondary scarcity.

In practice any such scheme would have to be coupled with strict price control of surplus goods in all stages.

J. Steindl.

THE EFFECT OF WAR ON THE SUGAR INDUSTRY

The World Market

The war has aggravated the problems which arise from the dominant position that sugar holds in the economic life of most cane producing countries. A shrinkage of exports or a decline in the price of sugar spells economic disaster in countries where the standard of living and social amenities are already at their lowest.

Between 70 per cent. and 90 per cent. of total exports of Virgin

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[1] For an example of successful new methods to cope with surplus goods, independent of rationing, see S. Moos, " The Two Stamp Plan," Bulletin, Vol. 3, No. 11.

Islands, Antigua, St. Kitts-Nevis, and of the Vichy possessions, Reunion and Martinique, consists of sugar.

During 1936–38 Central American States and those West Indian Islands which, up till now, have remained neutral, were dependent on exports of over 80 per cent. of their sugar production, compared with a world average of about 28 per cent. The world's most important sugar exporters were: (000 metric tons, average 1936–38) Cuba 2,700; Philippines 900, Dutch East Indies 700, Australia 400, Dominican Republic 350, while U.S.A. were leading in imports with 2,800, followed by U.K. and Ireland with 2,400, British and Allied Empires and Protectorates 1,100, Europe under Axis domination 700, and Canada 450.[1] The U.S.A. and the Allied powers, excluding territory occupied by the Axis and unoccupied France, absorbed in peace time about 80 per cent. of total sugar exports. Table 2 shews the position of imports, exports and production before the outbreak of war.

TABLE I

SUGAR EXPORTS AS PERCENTAGE OF TOTAL EXPORTS, AVERAGE 1931—1937

Mauritius	97·5	St. Domingo	63·6
Barbados	96·7	Puerto Rico	62·8
Fiji	73·2	Hawaii	59·5
Cuba	70·4	Philippines	49·8
Br. Guiana	64·5	Trinidad	21·9

TABLE II

IMPORTS, PRODUCTION AND EXPORTS OF SUGAR BY REGIONS, AS PERCENTAGES OF WORLD TOTAL, AVERAGE 1936–38

Region	*Imports* %	*Prod.* %	*Exports* %	*Region*	*Imports* %	*Prod.* %	*Exports* %
Axis dominated Europe*... ...	8·8†	21·4	4·4†	Neutral West Indies and Central America ...	0	12·9	38·7
Neutral Europe	1·9	2·0	1·0‡	South America″	2·5	7·1	3·9
U.K. and Ireland	30·0	1·6	4·1	Brit and Allied Emp. and Protect.	13·4	29·6	32·0
U.S.S.R. ...	0	7·8	1·3§	Vichy Colonies...	4·0	2·4	1·8
U.S.A. and Dependencies ...	35·0	10·6	11·5‖	Total in 000 metric tons ...	8,000	29,000	8,000

* Including Vichy France.

† Trade with U.K. and overseas only.

‡ Portuguese Africa to Portugal.

§ Mainly to Iran and Mongolia.

‖ Mainly Philippines to U.S.A.

″ Mainly Peru.

Sugar producing countries mainly affected by the discontinuation of exports to Europe under Axis domination are the Dominican Republic which exported 25 per cent. of her total sugar export to that area, Dutch East Indies 16 per cent., Union of South Africa

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[1] The figures quoted in this article represent mostly raw value of sugar in metric tons; but some figures are not corrected with the rate of conversion raw: refined which is in the neighbourhood of 100:94. The share of refined sugar in the total sugar trade amounts to about 17 per cent.

13 per cent., Cuba 7 per cent., Haiti 6 per cent., and Peru 3 per cent.

Of greater importance, however, are the imports of U.K. and Ireland, which absorbed 80–100 per cent. of the sugar exports of Mauritius, Union of South Africa and Australia and 60–70 per cent. of the sugar exports of Haiti, Trinidad, Kenya-Uganda and the Dominican Republic.

The latest data available with regard to exports, stocks and quotas are those of February 1941, which compared with February 1939, indicate the effect of war upon the sugar exporting countries.

TABLE III

WAR-TIME CHANGES IN STOCKS AND EXPORTS

** Stocks*	*End of Feb.*			*Change*	*An-*	*Exports Sept.-Feb.*			*Change*
in 000 metric tons	1939	1940	1941	1939–41 %	*nual Quota*	1938 –39	1939 –40	1940 –41	1938–41 %
Dutch East Indies	356	317	736	+106·0	1,010†	465	627	349	−25·0
Cuba‡	564	1,330	1,515	— 3·2	811	447	390	46	−90·0
Peru	32	—	100	+213·0	305	139	140	113	−23·7
Dominican Republic	73	96	126	+ 72·5	364	89	46	59	−33·6
Brazil	214	260	324	+ 49·0	53	39	20	3	−92·0
Haiti	5	10	7	+ 40·0	31	13	4	2	−85·0
Total					3,182				

* Stocks, according to the International Agreement, shall not exceed 25 per cent. of a country's annual production and shall not be less than 10 per cent. of their export quota.

† Including Netherlands.

‡ Other than U.S.A., see also p. 351.

World stocks are estimated to have reached 12·4 million tons on September 1st, 1941, achieving an all time high record (1/9/1940: 11·4 million tons).

Australia especially may be affected by the accumulation of surplus stocks. In peace time she sent 90 per cent. of her sugar exports to U.K. But the distance of about 15,000 miles makes Australia at present the least suitable country from which to ship sugar to U.K.

India's sugar production has also fallen in 1940–41 from 1·2 million to 1·0 million tons, but this decline was exclusively due to conditions in the home market, since India is no exporter of sugar.

In the Union of South Africa production declined between September–February 1939–40 and the same period 1940–41 from 300,000 tons to 285,000 tons and exports from 148,000 tons to 114,000 tons.

The latest comparable figures available for the British Colonial Empire refer to the year September–August 1939–40. Compared with the same period 1938–39 production declined from 1,170,000 tons to 940,000 tons, and exports from 1,080,000 tons to 720,000 tons.

The position of the Dutch East Indies seems somewhat precarious too, with a decline in exports from 1,348,000 tons in 1939 to 794,000 tons in 1940.

Cuba, the West Indies' greatest sugar producer, a country which a decade ago produced over 5 million tons of sugar, had her production almost halved in 1940. Still, at the end of the year her total stocks amounted to 1·2 million tons, compared with 600,000 tons at the end of 1939. The position was eased by an unexpected increase of American consumption in the first quarter of 1941, but this increase cannot be expected to last. Although Cuba has received U.S.A. credits to finance the storing of sugar, the position of this industry will, on the whole, remain critical. Strong influences are at work in U.S.A. to lower Cuba's share in U.S. sugar supply quota and to omit Cuba in the re-allocation of the Philippine quota. The Philippines account for some 14–15 per cent. and Cuba for about 19 per cent. of the U.S.A. Import Quota.

A further cut in Cuban sugar production would lead to serious financial difficulties, since the sugar mills work, on the average, at only 25 per cent. of their capacity. The mills lie idle for nine months of the year (although their engineering shops are said to be suitable for the production of defence equipment) and wage earners are employed six months of the year at the utmost.

EUROPE

How far can sugar exporters count on the European market? While in 1914–18 European sugar beet production fell by about 70 per cent., the European beet area in 1940 was 5 million acres, 25 per cent. above the 1934–38 average.

As in the Great War, France's beet production was largely wrecked by the German invasion. Since France in peace time imported about 450,000 tons of sugar, half of it from her colonies, her total sugar deficit in 1940–41 may be estimated at about 1 million tons. The shortage was partly met by a strict system of sugar rationing. The position will improve after the 1941–42 harvest, since the area under cultivation has been doubled (but is still 20 per cent. under the peace time level).

The introduction of rationing in almost all European countries is estimated to have reduced sugar consumption by 1·6 million tons. German consumption, amounting in 1938–39 to 2·4 million tons, and almost covered by a home production of 2·1 million tons, does not seem to have excessively contracted during war time. Taking Europe under Axis domination as a whole, the beet crops as estimated for 1940–41 decreased, compared with the average 1936–39 in France (by 75 per cent.), Czechoslovakia (21 per cent.), Spain (14 per cent.), and Poland (4 per cent.), and increased by 30–40 per cent. in Hungary, Italy and Yugoslavia, 20–30 per cent. in Holland, 10–20 per cent. in " Old " Germany, Belgium, Denmark and Roumania. The production of countries with increased crops rose by 15 per cent. (from 3·68 to 4·24 million tons) and fell in countries with decreasing crops by 34 per cent. (from 2·58 to 1·71 million tons), so that total production will fall by nearly 5 per cent. (from 6·25 to 5·94 million tons).

The above figures exclude the U.S.S.R. which has become the world's largest single sugar producer and accounts for 30 per cent. of the European total. It averaged 2·3 million tons in 1936–39 and was estimated at 2·7 million tons in 1940–41. The main sugar beet regions lie in the Western Ukraine, and in the districts east of Kiev and south-east of Gomel.

The European sugar deficit, based on peace time consumption, would amount to 340,000 metric tons. Allowing for war time changes in foreign trade, the import deficit would increase to 650,000 tons, a quantity covered partly by the rationing of consumption, partly by existing stocks, which in the countries overrun by Germany amounted to about 700,000 tons. The Reich's raw stocks declined from 620,000 tons on September 1st, 1939, to 27,000 tons on September 1st, 1940.

TABLE IV

BALANCE OF EUROPEAN SUGAR TRADE, AVERAGE 1936–39

in 000 metric tons *Imports to Axis dominated Europe*		*Exports from Axis dominated Europe*	
From other Axis dominated Europe	190	*To* other Axis dominated Europe	190
Vichy possessions	140	Neutral Europe	115
U.S.S.R.	15	Vichy Africa	195
U.K. and overseas	655	U.K. and overseas	160
Total	1,000		660

SUGAR SUPPLIES AND CONSUMPTION IN THE U.K.

Immediately after the outbreak of war the British Government assumed control of British sugar supplies. Total yearly British consumption in the years 1936–38 amounted to 2,350,000 metric tons; 500,000 tons were covered by home production and 1·96 million tons by net imports, with stocks near 250,000 tons.

U.K. war requirements are said to be three times as high as is covered by home production, i.e., between 1·3 and 1·5 million tons, compared with about 2·4 million tons in pre-war times. The sugar ration was reduced in May 1941, since the aim of the Government to extend the beet crop by 17 per cent. in the 1940–41 season failed. Personal domestic consumption on the basis of the rations in 1941 will amount to about 400,000 metric tons. The supply of sugar to manufacturers and brewers has also been severely restricted leaving in some cases only 25 per cent. of pre-war consumption (mineral-waters, candied peel, etc.). Some 1 million tons will remain for manufacturing purposes, restaurants, exports, losses by sinkings of ships and bombing of warehouses. About 150,000 tons might be needed for exports. An unknown quantity has been shipped to U.S.S.R.

Allowing for the home production of 500,000 tons, imports of a magnitude near 1 million tons will be necessary. This quantity can be completely covered by Sterling countries, and indeed, in the first 18 months of the war, sugar was bought almost exclusively from these areas.

TABLE V

COUNTRIES OF ORIGIN AND DESTINATION IN BRITISH SUGAR TRADE 1936–38

Imports from	*in 000 metric tons*		*Exports to*	
British West Indies and British Guiana	250		Empire	85
Other Empire*	1,050		Axis dominated territory ...	100
		1,300	Uruguay	45
Cuba		600	Other...	110
Dominican Republic		240		
Peru...		100		
Others		60		
		2,300		340
Home production		500		

* From Australia and Fiji 320,000 to 380,000 tons yearly.

After the invasion of Holland, the sugar exports of Dutch East Indies,[1] which joined the Sterling bloc, stood also at Great Britain's disposal. But the U.K. may have to give preference to sugar paid with foreign exchange but offering a shorter shipping route. The West Indies are 3,600–4,000 miles distant from Liverpool, compared with 9,500 miles between London and Singapore (and 6,000 miles Southampton–Capetown). Consequently U.K., in spring 1941, ordered sugar in San Domingo and Cuba, i.e. non-Sterling countries, although her total war-time imports are 300,000 tons below the pre-war imports from Empire countries and although the Government had bought the total exportable sugar crops of Mauritius, Australia, South Africa, Fiji and British West Indian Colonies, a quantity amounting to about 1¼ million tons. But ¾ of this production is grown in Sterling countries with a distance to U.K. 2,000 miles in excess of that from the West Indies. Canada will absorb about 430,000 tons and other Empire countries 290,000 tons.

STABILIZATION OF THE SUGAR MARKET?

The position of sugar producers after the war will be still more precarious than it was at the beginning. The problem of a change from cane crops to other crops can only be solved as part of a general scheme for agriculture, industry and foreign trade of each country concerned. The main difficulties working against change are presented by the high yield of cane per acre and labour unit and by the possibility or even probability that the alternative crops will, one time or another, produce a surplus too. In addition, the price of cane land is usually considerably above the price of other agricultural land, so that the change to other crops would involve a loss in the value of the land. A partial solution may lie in the direction of concentrating sugar cane on the most suitable soil, and using the rest of the land for mixed growing of food and export crops.

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[1] In peace time 250,000 tons were sent to Europe.

In many cases the lowering of costs necessary for the survival of the native sugar industry will have to be carried out by further mechanization of cane cultivation. Attempts at a co-operative tenant system as successfully applied in the Fiji islands could be made. In this system, heavier work is mechanized and performed by wage labour, lighter operations are carried out by family labour. For this purpose plantations are subdivided into family holdings which, for heavier work, are combined in larger units.

There are, further, the new possibilities of the production of power alcohol from sugar which has lately made considerable progress, and which, in many countries, can compete in price with imported petrol. The U.S.A., the Philippines, South Africa and Australia are leading in this development, which has been fostered by the gainful use of waste molasses. Data about production of power alcohol in Germany and Italy[1] are not available but in calculating Axis fuel resources, account should be taken of this development.

Summing up, it may be said that the sugar industry will probably be less dislocated than after the last war. The cane producing countries are not—as in the last war—extending but contracting their production. An International Agreement regulating production and exports in almost all important sugar growing countries has remained in force and will most probably be renewed in 1942. Surplus stocks have been financed by bulk-purchases and credits of importing countries. New possibilities for the industrial use of sugar have been opened, experiments on new forms of collective mechanization have proved successful. On the other hand, as long as possibilities of armed conflicts exist, the drive for self-sufficiency and the policy of subsidies in the beet producing countries will be maintained. General conditions in most cane producing countries are on so low a level that for social, economic and political reasons their improvement is a matter of urgency. The interests of high cost and low cost countries, of cane and beet producers,[2] of producing and consuming countries, will continue to clash and large surplus stocks will imperil the price level if free-market conditions are re-established. International co-operation will be endangered by those not adhering to or deserting from agreements concluded. But if the International Sugar Council should, in the face of these difficulties, succeed in stabilising the sugar market, they will have set an example for the post war world. S. Moos.

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[1] Italy's motor fuel consists of 4/5 petrol and 1/5 power alcohol made from sugar.

[2] The share of beet sugar in total sugar production was 50 per cent. before, 21 per cent. after the last war and 38 per cent. in 1937–38.

DIARY

TRANSPORT

Various aspects of the inland transport industry have recently been receiving public attention.

There is still no very tangible evidence of the establishment of an efficient, completely unified transport system. The position of the railways was discussed both by Colonel Llewellin in the Commons, announcing certain details of the new agreement, and by Lord Leathers in the Lords. Both these speakers concentrated on *financial* questions, such as the annual rental to be paid by the State, the position of the shareholders and the allocation of war damage costs. These appear to be relatively unimportant compared with such questions as concrete measures for reducing real costs and transit delays. There are many travellers, traders and users of commodities carried by rail who will question the accuracy of Colonel Llewellin's dictum that the transport machine is 'working extremely well.'

The application of the Essential Work Order to the railway industry is somewhat surprising. It is difficult to accept the implication that there has been a large movement of labour out of what is usually regarded as an industry offering special attractions to labour. It may be that earnings in other industries are now sufficiently high relative to those on the railways to offset the other advantages of the latter employment.

Road transport has also been discussed. In his presidential address to the Institute of Transport, Mr. J. S. Nichol observed that 'every effort should be made to keep to a minimum the disturbance of the normal methods of operation.' Yet there are at any rate good *prima facie* reasons for ascribing much of the present confusion in the transport industry to the adoption of this very policy in the last two years. The argument frequently put forward, for example, that the primitive organization of the road haulage industry on the basis of large numbers of very small firms is the main obstacle to the inclusion of the industry in a unified system, appears to be an argument for abandoning the existing organization rather than the principle of systematic co-ordination. The first need appears to be for the concentration of this industry. One method would be the formation of local or regional holding companies (the preference shares being held by existing operators, the ordinary ones by the State) to operate all vehicles including those of ancillary users in each region.

The recently announced road haulage plan represents an improvement on the previous situation, though it is less definite and complete than one might expect after two years of war. A fleet of vehicles will be 'under continuous Government control' and will be operated by a Ministry organization in fourteen areas. This will 'act as a clearing-house for traffic which the Minister accepts.' In addition an organization is set up 'managed by the industry alongside the Minister's organization to allocate the traffic passed to it by the Ministry's organization.'

The number of organizations and committees to deal with various branches of inland transport is now becoming very large. Their relations are probably simplified, however, by the fact that many of them have no administrative powers. What remains to be produced is some tangible indication that the problem of war-time inland transport is being considered, in real terms, as a whole and as one of crucial importance to the war effort. The proportion of total traffic now carried directly or indirectly on Government account must be, or should be, very large, and the Government would serve the country's interests well by exploiting this position to compel efficient operation.

School Meals and Canteen Meals

An important step towards the supply of meals to children at school was announced in Parliament. Financial support to the local authorities providing such meals is to be increased, the minimum grant now being 70 per cent. and the maximum grant 95 per cent. of the total net cost. Moreover, the facilities for providing meals which are at the disposal of the Government are to be made available for the supply of school meals, where necessary. The total amount authorized by the Exchequer has been raised from £3,400,000 to £4,000,000 *p.a.*, representing the cost of a midday meal for 1,000,000 children and of school milk for 4,500,000. This, however, ought to be regarded as a first step only, for, as Lord Woolton himself stressed on a previous occasion, the final aim must be to make sure that all children obtain at least one well balanced meal a day, an end to be achieved only by a further considerable increase of the Government subsidy. At present even where meals at school are available, they can be obtained by many children only against payment of 4d. a meal, which is likely to deter just those children most in need of it, that is, the children from families which find it difficult to make ends meet but are too proud to ask for what they consider to be 'charity.' But even the present grant by the Exchequer may remain far from being fully utilized because of the lethargy of local authorities. So far, only round 300,000 children are receiving meals at school, and of this number half has been added only recently, under the strong pressure of the Government. If the response of local authorities remains equally unsatisfactory in the near future, compulsion to provide meals to the children should be introduced.

Lord Woolton further pointed out that he is desirous to supply to all a war-time diet which makes allowance for individual needs, and that, therefore, he is going to increase the meat ration to canteens catering for heavy workers, giving them twice and three times as much meat as to those catering for sedentary workers. This may be a wise policy, stimulating the productivity of labour, but if it has this effect it will be largely for psychological, not for physiological reasons, unless, indeed, the increased meat ration is to consist mainly of fat meat and bacon. It is, however, somewhat unfortunate that Lord Woolton should have made his statement without such qualification ; for it will reinforce the idea, harboured by the majority of housewives that the men of the family must have plenty of meat while women and children can live on carbohydrate foods. Actually, sedentary workers, women, and children need relatively more protein foods than adult heavy workers, and, at that, more easily assimilable protein foods than physically very active men. The increase in the death rate from tuberculosis amongst women in their twenties is, probably, a severe warning as to the wrong allotment of the available foods within individual families.

An Experiment in Wage and Price Stabilization

The recent development of prices in Canada and the Dominion Government's plans to counteract them provide an interesting lesson on anti-inflation policy. The Dominion government has, since December 1940, virtually followed a policy of wage stabilization.[1] The highest wage rates reached in the period between 1926 and December, 1940 (in most cases, these are the wage rates in 1940) have been regarded as a ceiling for wage-rates which ought not to be exceeded. It was, however, provided that the wage earners may be granted an addition to the wage in the form of a cost of living bonus; this bonus has been fixed at $1·25 per week for every 5 per cent. rise in the official cost of living index. These principles of wage policy were prescribed for all industries which come under the Industrial Disputes Act (roughly speaking, industries where compulsory arbitration has been introduced, namely all war industries, transport, public utilities, construction, etc.). For the other industries, the application of the same principles was recommended. Control of prices on the other hand has been up to now largely non-existent.

The policy of keeping wages down did not prevent considerable price increases. From May 1941 onward the cost of living index has risen strongly. It was then 8·5 per cent. above pre-war level, and it is now 14 per cent. above it,[2] so that it increased in the last five months at a yearly rate of 12 per cent., whereas up to May its yearly rate of increase was less than 5 per cent. (a large part of it due to increase of import prices at the beginning of the war). The recent increase of the cost of living can hardly be explained by cost increase (a large part of it is due to increasing price of home-produced food), and it seems to indicate the beginning of an inflationary process, which was predicted in these pages for the middle of the year, on the basis of an analysis of the financial situation.[1] The Dominion government now announces a plan for general price stabilization in order to meet the new situation. From November 15th onwards prices will not be allowed to rise above a ceiling which is set by the prices prevailing in the four weeks preceding mid-October. At the same time wage control is apparently to be extended so that the principles of wage stabilization and cost of living bonus will probably apply to all industries. The price stop is to apply to all goods except those which are exported ; rents and services are also excepted. It would appear that export prices will have to be controlled in some form or other, otherwise excess profits will appear in export industries, which would then be put in a favoured position as compared with other industries. Import prices will also require to be controlled, and subsidies will become necessary to offset cost increases.

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[1] For an exposition of this policy see the official publication "Canada's War-Time Wages Policy," Supplement to the Canadian *Labour Gazette*, July 1941.

[2] According to Mr. Mackenzie King's statement on October 19th.

Even if these corrections are introduced it seems unlikely that the price and wage stabilization will prove adequate at this stage; the reason is that in the present situation of rising demand and limited supply the price stop will produce a decrease in inventories in the next months, and rationing will sooner or later have to be resorted to.

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[1] BULLETIN, Vol. 3, No. 3, p. 43; see also Vol. 3, No. 7, p. 147.

ERRATUM

BULLETIN, Vol. 3, No. 14, page 321. In Table III the footnote ‡ should read 'Column VI by Column IV.'